



FINAL PROJECT REPORT

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The HP-Compaq merger

A Battle for the Heart and Soul for a Company (Epilogue)

Summary:

Overview:

This case is about HP and Compaq merger, that how HP run in industrial world. From 2002-2004 they made a big change in their sales, profits and reputation. After the merger HP-Compaq, HP introduce many products they also won contracts from their big rivals. The whole journey was basically the battle with the Hewlett-Packard Company (founded in 1939 in Palo Alto, California, garage).

Reconstruction 2002-2004:

In spring 2004, Carly Fiorina said in her speech that merger is important because by doing so they can reduce their cost structure and improve their competitive position at the same time. By ending April 30 their revenue increased by 12% as from the second quarter of HP's announced by Fiorina in May 2004. On which later they got profit of 6% in that quarter to \$884 million. Cash reserves also reached a comfortable \$6.5bn. Although large merger in high-tech industry usually fails but, the HP-Compaq merger was a right decision as they got profit and success from it. The other numbers are:

- HP had shipped a record 43 million printers in 2003, more than one per second. Accounting for about 30% of sales and 75% of operating profits in 2004.
- By April 2004 HP was the world's largest PC seller. PC sales rose 20% in first quarter 2004, beating Dell's 11%.
- HP was number 2 behind IBM in the server market

A New HP Organizational strategy:

As Michael Capellas who know more about the merger integration and was expected to lead the HP-Compaq merger strategy, but after six months of merger was approved, he left the HP for WorldCom in November. Some reasons behind his resignation are that, he was not happy with his role within the company and also there was an argument between Capellas and Fiorina as Capellas said long-term profits would come through replicating the Dell's

sales but Fiorina preferred using HP dealers as they got more than revenue and HP board adopted Fiorina's approach in September 2002.

Fiorina focused the new Organization strategy on three areas:

- Simplify HP for speed and effectiveness.
- Enhance customer focus
- Accelerate growth

During the integration, the favourite Dictum was "adopt and go". The both companies leave things in favour of their merger company. For Example, HP's handheld was discontinued, HP's NetServe and corporate PC business, Compaq's consumer PC business. Their focus was on cost cutting with an impressive 43.5bn by early 2004, through some measures such as:

- Folding four compatible email system into one.
- Unifying local policies into single set of rules for all employees worldwide.
- Reduce post-merger manufacturing cost by 26%.
- Reducing number of supply chains, connect them through internet and could get real-time consumption data and automatic replenishment orders on-line.
- Improving bargaining power, reducing supply chain inventory from 48 to 40 days, receivables to 4 days.
- Eliminating 17000 jobs.

Customer focus and growth would enhance by two-part consumer and commercial strategy. By probably offering from personal digital assistant to massive client servers. HP introduce over 150 new products (digital cameras, large screen notebooks etc.) in August 2003. And in 2004 the HP's deal with the Apple to install iTunes on all HP systems to resell iPods, this astounded Microsoft.

On Commercial side, Fiorina introduce HP's Adaptive Enterprise strategy in 2003. This initiative was designed to make clients' IT infrastructure more adaptable. Fiorina said as IBM was too expensive and Dell had offered less expertise technology, she explained it as "High-tech plus low cost equal to customers experience". And HP offered the both worlds.

Selling the New HP:

HP reorganized into four different business units and an R&D lab to cover the consumers and commercial market. Each unit had well defined sales and development goals. In addition, during the reconstruction period after merger, the new HP successfully streamlined and integrated into several areas.

As by HP's early successes, Carly Fiorina had a new sales pitch: What we did for ourselves we can do for you". HP also gain potential clients such as; General electric, the department of Homeland Security, and the Walt Disney Co. In April 2003 HP also sign a contract with Procter & Gamble and announced a ten-year \$3bn outsourcing, beating IBM.

HP proved the critics wrong by taking place of Dell in PC business and IBM in the client server business. By signing large contracts does not guarantee for making money. Regarding optimistic, areas of concern are:

- As of May 2004, HP still trading shares at discount compared to rivals.
- Slipping off, of profit margins.
- Many Top management left the job.
- HP's printer business faced strong competition.
- And increased margin pressure.

The battle or the war:

The battle with Walter Hewlett forced HP to prepare their post-merger strategy in detail. Their success in merger was due to thorough preparation and luck. As the Sun Microsoft struggle with finding a viable market position and the slump in the US economy reduce analyst, which ironically gave the new HP to make their position.

As after all this when Walter Hewlett loses his seat on the HP board of director, he further did not make any announcement. And yet, Hewlett and Packard families they are among the largest shareholder of HP's. So, some people questioned about the 48% shareholder of company, about the merger against people and about Fiorina strategy.

They were also curious about that how board will manage the everyone's needs.